

**HABITAT FOR HUMANITY
OF DURHAM, INC.**

Financial Statements

June 30, 2021 and 2020

CONTENTS

INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3 - 4
Statements of Activities	5 - 6
Statements of Functional Expenses	7 - 8
Statements of Cash Flows	9
NOTES TO FINANCIAL STATEMENTS	10 – 25



Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Durham, Inc.
Durham, North Carolina

We have audited the accompanying financial statements of Habitat for Humanity of Durham, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Durham, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Thomas, Judy + Tucker, P.A.

Durham, North Carolina
November 12, 2021

HABITAT FOR HUMANITY OF DURHAM, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

<u>ASSETS</u>	2021		Total
	Without Donor Restriction	With Donor Restriction	
Current Assets:			
Cash and Cash Equivalents	\$ 3,241,028	\$ 29,030	\$ 3,270,058
Grants and Other Receivables	418,362		418,362
Promises to Give, Net		557,709	557,709
Non-Interest Bearing Mortgage Loans Receivable, Net	379,703		379,703
Land and Construction in Progress	2,058,101		2,058,101
Prepaid Expenses and Deposits	12,642		12,642
Total Current Assets	6,109,836	586,739	6,696,575
Property and Equipment, Net	83,855		83,855
Other Assets:			
Promises to Give, Net		21,645	21,645
Prepaid Joint Venture Fees	58,887		58,887
Non-Interest Bearing Mortgage Loans Receivable, Net	6,825,873		6,825,873
Land Held for Development	1,691,332		1,691,332
Investment in Joint Ventures	1,165,788		1,165,788
Total Other Assets	9,741,880	21,645	9,763,525
Total Assets	\$ 15,935,571	\$ 608,384	\$ 16,543,955
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 250,900	\$	\$ 250,900
Deferred Revenue	6,409		6,409
Note Payable	323,640		323,640
Current Maturities of Long-Term Debt	221,853		221,853
Total Current Liabilities	802,802		802,802
Long-Term Debt	3,263,452		3,263,452
Guarantee Liability	249,941		249,941
Total Liabilities	4,316,195		4,316,195
Net Assets:			
Net Assets without Donor Restriction:			
Undesignated	11,338,376		11,338,376
Board Designated	281,000		281,000
Net Assets with Donor Restriction:			
Purpose Restrictions		608,384	608,384
Total Net Assets	11,619,376	608,384	12,227,760
Total Liabilities and Net Assets	\$ 15,935,571	\$ 608,384	\$ 16,543,955

2020		
Without Donor Restriction	With Donor Restriction	Total
\$ 2,201,562	\$ 927,060	\$ 3,128,622
362,294		362,294
	340,739	340,739
389,206		389,206
1,983,456		1,983,456
16,948		16,948
<u>4,953,466</u>	<u>1,267,799</u>	<u>6,221,265</u>
273,700		273,700
	296,150	296,150
75,712		75,712
6,691,596		6,691,596
2,012,939		2,012,939
1,177,862		1,177,862
<u>9,958,109</u>	<u>296,150</u>	<u>10,254,259</u>
<u>\$ 15,185,275</u>	<u>\$ 1,563,949</u>	<u>\$ 16,749,224</u>
\$ 255,253	\$	\$ 255,253
90,803		90,803
355,060		355,060
222,393		222,393
<u>923,509</u>		<u>923,509</u>
3,461,319		3,461,319
249,941		249,941
<u>4,634,769</u>		<u>4,634,769</u>
10,419,506		10,419,506
131,000		131,000
	<u>1,563,949</u>	<u>1,563,949</u>
<u>10,550,506</u>	<u>1,563,949</u>	<u>12,114,455</u>
<u>\$ 15,185,275</u>	<u>\$ 1,563,949</u>	<u>\$ 16,749,224</u>

See Accompanying Notes

HABITAT FOR HUMANITY OF DURHAM, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2021 and 2020

	2021		Total
	Without Donor Restriction	With Donor Restriction	
Support and Revenue:			
Transfers to Homeowners	\$ 3,782,720	\$	\$ 3,782,720
Contributions	1,188,098	1,029,401	2,217,499
City of Durham Grant	395,026		395,026
NC Housing Finance Agency Grant	121,500		121,500
ReStore Distributions	279,356		279,356
Mortgage Loan Discount Amortization	801,697		801,697
In-Kind Contributions	32,790	8,291	41,081
Gain on Sale of Property and Equipment	106,765		106,765
Repairs	107,519		107,519
Gain on Sale of Restore			
PPP Loan Forgiveness	355,060		355,060
Miscellaneous Income	68,073		68,073
	<u>7,238,604</u>	<u>1,037,692</u>	<u>8,276,296</u>
Total Support and Revenue			
Net Assets Released from Restrictions	<u>1,993,257</u>	<u>(1,993,257)</u>	<u></u>
Total Support and Revenue and Net Assets Released from Restrictions	<u>9,231,861</u>	<u>(955,565)</u>	<u>8,276,296</u>
Expenses:			
Program Services:			
Construction Services	4,793,330		4,793,330
Homeowner Services	2,036,890		2,036,890
ReStore			
	<u>6,830,220</u>	<u></u>	<u>6,830,220</u>
Total Program Services			
Support Services:			
Management and General	813,226		813,226
Fundraising	519,545		519,545
	<u>1,332,771</u>	<u></u>	<u>1,332,771</u>
Total Support Services			
Total Expenses	<u>8,162,991</u>	<u></u>	<u>8,162,991</u>
Change in Net Assets	1,068,870	(955,565)	113,305
Net Assets at Beginning of Year	<u>10,550,506</u>	<u>1,563,949</u>	<u>12,114,455</u>
Net Assets at End of Year	<u>\$ 11,619,376</u>	<u>\$ 608,384</u>	<u>\$ 12,227,760</u>

2020		
Without Donor Restriction	With Donor Restriction	Total
\$ 1,464,000	\$	\$ 1,464,000
1,277,208	769,419	2,046,627
53,600		53,600
137,346		137,346
543,497		543,497
39,773	40,665	80,438
402,764		402,764
395,487		395,487
132,548		132,548
4,446,223	810,084	5,256,307
1,884,278	(1,884,278)	
6,330,501	(1,074,194)	5,256,307
3,454,460		3,454,460
822,490		822,490
233,287		233,287
4,510,237		4,510,237
414,928		414,928
426,094		426,094
841,022		841,022
5,351,259		5,351,259
979,242	(1,074,194)	(94,952)
9,571,264	2,638,143	12,209,407
<u>\$ 10,550,506</u>	<u>\$ 1,563,949</u>	<u>\$ 12,114,455</u>

See Accompanying Notes

HABITAT FOR HUMANITY OF DURHAM, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	Construction Services	Homeowner Services	Total Program Services	Management and General	Fundraising	Total
Cost of Homes Transferred	\$ 3,994,929	\$	\$ 3,994,929	\$	\$	\$ 3,994,929
Cost of Repair Program	233,952		233,952			233,952
Salaries and Benefits	367,838	259,761	627,599	331,008	417,080	1,375,687
Mortgage Discounts		1,725,223	1,725,223			1,725,223
Donation to Habitat for Humanity International	94,501		94,501			94,501
Rent and Utilities	6,230	10,055	16,285	35,052	9,702	61,039
Professional Services	70,978		70,978	45,823	9,703	126,504
Office Expenses	993	11,035	12,028	18,398	29,817	60,243
Computer Expenses	1,617	4,894	6,511	15,668	14,573	36,752
Interest Expense	1,033		1,033	52,166		53,199
Tools and Equipment	20	320	340			340
Depreciation and Amortization	7,802	7,802	15,604	7,801	7,801	31,206
Vehicle and Mileage Reimbursement	10,685	197	10,882	27	332	11,241
Bad Debt Expense				291,145		291,145
Property Taxes and Insurance		9,517	9,517	13,594	13,595	36,706
Staff and Board Development	1,528	475	2,003	643	2,123	4,769
Fundraising and Special Events					3,676	3,676
Postage	1,224	2,235	3,459	1,901	7,170	12,530
Community Relations		5,376	5,376		3,973	9,349
Total Functional Expenses	\$ 4,793,330	\$ 2,036,890	\$ 6,830,220	\$ 813,226	\$ 519,545	\$ 8,162,991

See Accompanying Notes

HABITAT FOR HUMANITY OF DURHAM, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	Construction Services	Homeowner Services	ReStore	Total Program Services	Management and General	Fundraising	Total
Cost of Homes Transferred	\$ 2,060,981	\$	\$	\$ 2,060,981	\$	\$	\$ 2,060,981
Cost of Repair Program	694,424			694,424			694,424
Salaries and Benefits	491,556	180,620	51,302	723,478	106,926	307,105	1,137,509
Mortgage Discounts		602,800		602,800			602,800
Donation to Habitat for Humanity International	42,000			42,000			42,000
Donation to Habitat for Humanity Wake County			100,000	100,000			100,000
Rent and Utilities	3,263	3,263	5,336	11,862	32,235	3,263	47,360
Professional Services	70,794		299	71,093	132,689	30,004	233,786
Office Expenses	492	4,703	3,765	8,960	45,711	13,287	67,958
Computer Expenses		6,025		6,025		4,084	10,109
Bank Fees and Merchant Charges			9,706	9,706			9,706
Interest Expense	37,963		17,280	55,243	4		55,247
Tools and Equipment	3,091	2,209	8,247	13,547	8,827	7,537	29,911
Depreciation and Amortization	7,185	7,185	12,130	26,500	7,185	7,185	40,870
Vehicle and Mileage Reimbursement	20,776	545	4,656	25,977	875	892	27,744
Bad Debt Expense					65,719		65,719
Marketing			77	77	245	27,219	27,541
Maintenance and Repairs			5,453	5,453			5,453
Insurance	9,014	9,014	8,303	26,331	9,014	9,014	44,359
Staff and Board Development	56	2,124	75	2,255	253	2,171	4,679
Telephone	5,435	2,329	779	8,543	3,456	4,393	16,392
Fundraising and Special Events						8,671	8,671
Postage	131	760		891	1,287	1,269	3,447
Family Selection Expenses		913		913			913
Volunteer Expense	7,299			7,299			7,299
Purchases for Resale			5,879	5,879			5,879
Miscellaneous Expense					502		502
Total Functional Expenses	\$ 3,454,460	\$ 822,490	\$ 233,287	\$ 4,510,237	\$ 414,928	\$ 426,094	\$ 5,351,259

See Accompanying Notes

HABITAT FOR HUMANITY OF DURHAM, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 113,305	\$ (94,952)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Original Issue Discount on Mortgage Loans Receivable	1,725,223	602,800
Amortization of Mortgage Discounts	(553,110)	(543,497)
Forgivable Mortgages	(491,720)	(131,400)
Depreciation and Amortization	31,206	40,870
Amortization of Deferred Finance Costs	5,595	4,950
Gain on Sale of ReStore		(395,487)
Gain on Sale of Property and Equipment	(106,765)	
PPP Loan Forgiveness	(355,060)	
Change in Current Assets and Liabilities:		
Grants and Other Receivables	(56,068)	(29,740)
Promises to Give, Net	57,535	339,723
Mortgage Loans Receivable, Net	(805,167)	416,571
Land and Construction in Progress and Land Held for Development	246,962	(765,065)
Prepaid Expenses and Deposits	4,306	(1,067)
Prepaid Joint Venture Expenses	16,825	16,825
Investment in Joint Ventures	12,074	12,074
Accounts Payable and Accrued Expenses	(4,353)	(42,867)
Deferred Revenue	(84,394)	74,329
Net Cash Used by Operating Activities	(243,606)	(495,933)
Cash Flows from Investing Activities:		
Proceeds from Sale of ReStore, Net of Cash Sold		644,087
Proceeds from Sale of Property and Equipment	316,000	
Purchase of Property and Equipment	(50,596)	(24,141)
Net Cash Provided by Investing Activities	265,404	619,946
Cash Flows from Financing Activities:		
Proceeds from Note Payable	323,640	355,060
Principal Payments on Long-Term Debt	(204,002)	(225,603)
Net Cash Provided by Financing Activities	119,638	129,457
Net Increase in Cash and Cash Equivalents	141,436	253,470
Cash and Cash Equivalents, Beginning of Year	3,128,622	2,875,152
Cash and Cash Equivalents, End of Year	\$ 3,270,058	\$ 3,128,622
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	\$ 55,286	\$ 68,962

See Accompanying Notes

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies

Organization

Habitat for Humanity of Durham, Inc. (the "Organization") (a not-for-profit organization) was incorporated in December 1985. In October 2009, the Organization changed its name from Durham County Habitat for Humanity. The Organization is a nondenominational Christian organization whose mission is to transform lives and communities by making home ownership possible in partnership with people who care. The Organization is an affiliate of Habitat for Humanity International, Inc. ("HFHI"). Although HFHI assists with information resources, training, publications, prayer support and in other ways, the Organization is primarily and directly responsible for its own operations. The Organization fulfills its mission by focusing its efforts in these primary service areas:

Construction Services: The Organization builds and sells affordable homes for low income families using volunteer labor. Services offered include new home construction, gut rehabs of homes in historical areas and critical and urgent repairs which allow homeowners to avoid eviction and protect the investment in their home. The Organization helps revitalize inner city neighborhoods as they build, sell, and repair homes for low income buyers.

Since its inception in 1985, the Organization has built or rehabilitated 442 homes (of which 92 were in the past five years) which are sold, interest free, to qualified buyers.

In late 2010, the Organization joined the Neighborhood Revitalization Initiative ("NRI"), a HFHI initiative. NRI focuses on repairs and weatherization of homes, as well as beautification and landscaping for qualified, low-income homeowners. Funding for the NRI program has come from various sources. In the past three years, the Organization has completed 199 repairs, including landscaping projects. The Organization has been contributing to HFHI to provide funding to build homes and provide housing solutions internationally. Countries of focus include Honduras, Malawi, and Nepal.

Homeowner Services: The Organization recruits, selects, and stewards eligible applicants for homeownership through the approval and application process to mortgage closing and beyond. The approval process includes attendance at homeowner education classes and performance of sweat equity volunteer work. Each home is sold at near appraised value and an interest-free, affordable mortgage is offered to each homeowner.

In total, 1,219 families have been the recipients of the Organization's various housing solution programs since the Organization's inception in 1985.

ReStore: The ReStore sells donated and salvaged building materials to the general public at below-market prices with the net proceeds supporting the organization's mission to build affordable homes. In addition to making home maintenance more affordable, the restore operations keep usable materials out of the landfill. During the year ended June 30, 2020, the Organization entered into an agreement to sell the ReStore. See Note 15.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Boards (“FASB”) Accounting Standards Codification (“ASC”) 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. ASC 958-205 requires that not-for-profit Organizations provide a statement of financial position, a statement of activities, a statement of functional expenses, and a statement of cash flows. Also, ASC 958-205 requires classification of an Organization’s net assets, revenues and expenses according to the following net asset classifications:

Net Assets without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net Assets with Donor Restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of ninety days or less. Cash equivalents totaled \$1,264,187 and \$1,413,860 at June 30, 2021 and 2020, respectively.

Concentration of Credit Risk

The Organization occasionally maintains deposits in excess of federally insured limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 for all accounts. The risk is managed by maintaining all deposits in high quality financial institutions. As of June 30, 2021, the Organization’s cash balances were in excess of federally insured limits by \$2,814,976.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (Continued)

Promises to Give

All unconditional promises to give (contributions) are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. All unconditional promises to give are considered without donor restriction use unless specifically restricted by the donor. Amounts received that are designed for future periods or restricted by the donor for specific purposes are reported as support with donor restriction that increases that net asset class.

Unconditional promises to give are recorded at the present value of estimated future cash flows and net of an allowance for uncollectible promises. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met. The Organization currently has no conditional promises to give.

Non-Interest Bearing Mortgage Loans Receivable

Mortgage loans receivable consist of non-interest bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Accounting principles generally accepted in the United States ("U.S. GAAP") require that receivables that are contractual rights to receive money in the future at a fixed or determinable date be recorded at the present value of the consideration given in the exchange. The Organization follows this method of accounting for its mortgages using effective interest rates supplied by HFHI.

Land, Construction in Progress and Land Held for Development

Land, construction in progress, and land held for development is stated at cost if purchased, or appraised value at date of donation, if donated. Land and construction costs are recognized as program service expense in the period that the property is transferred to the homeowner.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost, or, if donated, at the approximate fair value at the date of donation.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (Continued)

Property and Equipment (Continued)

Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Rental Properties	27.5
Office Furniture	5
Computer Equipment and Software	5
Machinery and Equipment	5
Leasehold Improvements	39
Vehicles	5

Depreciation expense totaled \$31,206 and \$40,870 for the years ended June 30, 2021 and 2020, respectively.

Investment in Joint Ventures

In December 2017, the Organization invested, along with six other Habitat affiliates, in a joint venture (Harbor Community Fund XIII, LLC) with approximately seventeen percent (16.67%) ownership to take advantage of New Market Tax Credit (“NMTC”) financing. As a result, the Organization initially invested \$1,207,441 and was able to secure a loan in the amount of \$1,715,000 payable to a community development entity. The investment is accounted for under the equity method. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

Forgivable Mortgages

To assist participants whose annual incomes do not meet certain levels in qualifying for the purchase of a home, some homes are sold to those participants at an amount below fair market value. In these cases, revenue for the transfer of the home is recorded at full fair market value and the difference between the fair market value and the sales price is recorded as a forgivable mortgage expense. Per written contracts, at the end of the first mortgage term the full amount is forgiven; however, should the homeowner dispose of the home prior to the end of the first mortgage term, the entire forgivable mortgage is due. The Organization approved a total of \$491,720 and \$131,400 in forgivable mortgages for the years ended June 30, 2021 and 2020, respectively, of which none were due or repaid in the years ended June 30, 2021 and 2020.

Contributions

Contributions of cash and other assets, as well as grants, are accounted for in accordance with FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*. In accordance with this standard, contributions received are recorded as increases in net assets with donor restriction or without donor restriction, depending on the existence or nature of any donor restrictions.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

In-Kind Contributions

The Organization records in-kind contributions of professional services, materials, donated office space, utilities and property and equipment at fair market value at the date of the donation.

The Organization is also the recipient of services donated by volunteers consisting of individuals in the community as well as church and corporate groups. Volunteers also include homeowners who volunteer hours as part of their commitment to home ownership. No amounts have been reflected in the financial statements for volunteer hours since these services do not meet the requirements for recognition in the financial statements. The Organization was the recipient of approximately 7,487 and 35,463 volunteer hours for the years ended June 30, 2021 and 2020, respectively.

Transfer to Homeowners

Transfer to homeowners represent the sales price at the date of closing.

Functional Allocation of Expenses

The statement of functional expenses reports certain categories of expenses that are attributable to one or more programs or supporting functions of the Organization. Therefore these expenses require allocation on a reasonable basis that is consistently applied. All other expenses are directly identified with either programs or in management and fundraising.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and Benefits	Time and effort
Rent and Utilities	Square Footage
Depreciation and Amortization	Square Footage
Insurance	Square Footage

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution donation under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (Continued)

Accounting for Uncertainty in Income Taxes

The Organization has adopted the provisions of FASB ASC 740, *Income Taxes*. Using this guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2021, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred. Advertising costs totaled \$21,989 and \$27,541 for the years ended June 30, 2021 and 2020, respectively.

Reclassifications

Certain reclassifications have been made to the 2020 presentation to conform to the current year presentation with no effect on previously reported change in net assets and net assets.

New Accounting Pronouncements

The Organization has adopted Accounting Standards Update (“ASU”) No. 2014-09 – *Revenue from Customers (ASC 606)*, as amended as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Revenue Recognition

The Organization accounts for revenue from contracts with customers in accordance with ASC 606. The unit of account in ASC 606 is a performance obligation. At the inception of each contract with a customer, the Organization determines the performance obligations under the contract and the contract’s transaction price. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is defined as the unit of account. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

2. Availability and Liquidity

The following represents the Organization's financial assets at June 30, 2021:

Financial Assets at Year-End:	
Cash and Cash Equivalents	\$ 3,270,058
Grants and Other Receivables	418,362
Promises to Give, Net – Current	557,709
Non-Interest Bearing Mortgage Loans Receivable, Net – Current	<u>379,703</u>
Total Financial Assets	4,625,832
Less Amounts Not Available to be Used for General Expenditures Within One Year:	
Net Assets with Donor Restrictions	(586,739)
Board Designated Net Assets	<u>(281,000)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 3,758,093</u>

The Organization's goal is generally to maintain cash reserves that cover 90 days of anticipated cash outlays. During the year ended June 30, 2020, the Organization established a Board designated operating reserve policy to accumulate cash surplus for future operating needs. While it is not the intent of the Board to utilize this fund, it may be accessed if needed. Additionally, the Organization has a line of credit that can be used for unexpected cash needs. See Note 9.

3. Promises to Give

Promises to give consisted of the following at June 30:

	2021	2020
Receivable in Less Than One Year	\$ 557,709	\$ 340,739
Receivable in More Than One Year	<u>131,938</u>	<u>447,674</u>
Total Promises to Give	689,647	788,413
Less: Discount to Present Value	(8,901)	(50,132)
Less: Allowance for Uncollectible Promises	<u>(101,392)</u>	<u>(101,392)</u>
Total Promises to Give, Net	<u>\$ 579,354</u>	<u>\$ 636,889</u>

Amounts receivable in future periods were discounted using a rate 3.25%.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

4. Mortgage Loans Receivable

Non-interest bearing mortgage loans receivable consisted of the following at June 30:

	2021	2020
Non-Interest Bearing Mortgage Loans Receivable	\$ 18,306,488	\$ 17,258,188
Less: Unamortized Discount	(11,100,912)	(10,177,386)
Net Present Value	7,205,576	7,080,802
Less: Amount Due within One Year	(379,703)	(389,206)
Amount Due after One Year	\$ 6,825,873	\$ 6,691,596

These mortgages do not earn interest and are secured by deeds of trust on homes. If homeowners default on their mortgages, the Organization retains all or a portion of the equity in the home. Future annual mortgage receipts for mortgage loans receivable, net of discount, are as follows for the years ending June 30:

2022	\$ 938,635
2023	930,845
2024	929,503
2025	929,400
2026	927,261
Thereafter	13,650,844
	18,306,488
Less: Discount	11,100,912
	\$ 7,205,576

5. Land, Construction in Progress and Land Held for Development

Land and construction in progress and land held for development consisted of the following at June 30:

	2021	2020
Land (Including Infrastructure)	\$ 1,895,010	\$ 2,263,295
Construction in Progress	1,854,423	1,733,100
	3,749,433	3,996,395
Less: Current Portion	(2,058,101)	(1,983,456)
	\$ 1,691,332	\$ 2,012,939

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

6. Property and Equipment

Property and equipment consisted of the following at June 30:

	2021	2020
Rental Properties	\$	\$ 251,206
Office Furniture, Computer Equipment and Software	85,335	54,270
Machinery and Equipment	18,298	18,294
Leasehold Improvements	44,469	34,112
Vehicles	72,022	77,357
	220,124	435,239
Less: Accumulated Depreciation	(136,269)	(161,539)
Net Property and Equipment	\$ 83,855	\$ 273,700

7. Investment in Joint Ventures

In July 2011, the Organization participated in a NMTC program. The program provides tax credits to eligible organizations for investment in “qualified low-income community investments”. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (“CDE”). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In July 2011, the Organization recorded its 22.45% investment in HFHI-SA Leverage IX, LLC at an initial cost of \$1,982,054. The Organization continues to record the investment under the equity method. The investment had no carrying value at June 30, 2021 and 2020.

In November 2018, HFHI-SA Investment Fund VI, LLC, (the “Fund”), and the upstream effective owner of HFHI-SA NMTC VI, LLC (holder of the promissory note due from the Organization) exercised their put option. Under the terms of the put option agreement, HFHI-SA Leverage IX, LLC purchased the ownership interest of the Fund for \$1,000 plus certain other costs as defined by the put option agreement. Exercise of the option allowed the Organization to extinguish its outstanding debt owed to the Fund. (See Note 11 for details of promissory note.)

In December 2017, the Organization participated in another NMTC program. The Organization recorded its 16.67% investment in Harbor Habitat Leverage II, LLC at an initial cost of \$1,207,441. The Organization records the investment under the equity method. The investment is recorded at \$1,165,788 and \$1,177,862 at June 30, 2021 and 2020, respectively.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

7. Investment in Joint Venture (Continued)

In December 2024, Twain Investment Fund 296, LLC, (the "Twain Fund"), and the upstream effective owner of Harbor Habitat Leverage II, LLC (holder of the promissory note due from the Organization) expects the equity owners of the Twain Fund to exercise their put option. Under the terms of the put option agreement Harbor Habitat Leverage II, LLC is expected to purchase the ownership interest of the Twain Fund for \$1,000 plus certain other costs as defined by the put option agreement. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Twain Fund. (See Note 11 for details of promissory note.)

8. Deferred Revenue

Deferred revenue was \$6,409 and \$90,803 at June 30, 2021 and 2020, respectively, and consisted of amounts received in advance for future home maintenance and repairs.

9. Line of Credit

The Organization had a revolving line of credit with a commercial bank that matured on December 15, 2020. In December 2020, the line of credit was renewed through December 2021 with a maximum availability of \$1,000,000. Interest accrues at the Prime Rate (3.25% at June 30, 2021) and all unpaid principal and interest is due upon maturity in December 2021. The line of credit is secured by twenty-four mortgage loans receivable totaling \$1,399,796 as of June 30, 2021. The line of credit had no outstanding balance as of June 30, 2021 and 2020.

10. Note Payable

In February 2021, the Organization entered into a note payable agreement of \$323,640 with a financial institution through the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act. The Organization anticipates the entire outstanding balance of the note payable will be forgiven in accordance with the regulations of the Paycheck Protection Program during the year ended June 30, 2022, and has classified the note as current within the statements of financial position. The note payable accrues interest at a fixed rate of 1.00% through maturity in February 2026.

In April 2020, the Organization entered into a note payable agreement of \$355,060 with a financial institution through the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act. The entire outstanding balance of the note payable was forgiven in accordance with the regulations of the Paycheck Protection Program during the year ended June 30, 2021, and has included the loan proceeds in revenue for the year ended June 30, 2021.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

11. Long-Term Debt

Non-interest bearing long-term debt consisted of the following at June 30:

	2021	2020
Note payable, commercial bank, with a fixed interest rate of 1.00%, annual principal payments of \$150,000 beginning November 1, 2019 with the final payment due November 2028. Secured by non-interest bearing mortgage loans receivable.	\$ 1,200,000	\$ 1,350,000
Note payable, Habitat for Humanity International, Inc., monthly payments of \$225 from January 2016 through June 2020, non-interest bearing, unsecured (discount is based on imputed interest rate of 3.25%).		655
Note payable, Habitat for Humanity International, Inc., monthly payments of \$156 from July 2016 through July 2020, non-interest bearing, unsecured (discount is based on imputed interest rate of 3.25%).		1,416
Note payable to Habitat for Humanity International, Inc., with an interest rate of 4.25%, quarterly payments of \$24,276 through December 2028. Secured by the Organization's mortgage receivables and all corresponding property titles and rights.	620,813	672,744
Note payable to Harbor Habitat Leverage II, LLC. (See paragraph on the next page for terms.)	1,715,000	1,715,000
Total Long-Term Debt	3,535,813	3,739,815
Less: Discount		(1,033)
	3,535,813	3,738,782
Less: Current Maturities	(221,853)	(222,393)
Less: Unamortized Deferred Finance Costs	(50,508)	(55,070)
Total Long-Term Portion	\$ 3,263,452	\$ 3,461,319

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

11. Long Term Debt (Continued)

Future maturities of long-term debt are as follows for the years ending June 30:

2022	\$	221,853
2023		224,956
2024		228,192
2025		231,859
2026		235,091
Thereafter		<u>2,393,862</u>
		3,535,813
Less: Unamortized Deferred Finance Costs		<u>(50,508)</u>
		<u>\$ 3,485,305</u>

In December 2017, the Organization entered into a \$1,715,000 note payable to Harbor Habitat Leverage II, LLC. The note payable requires interest only payments until June 10, 2025 at 1.00%. Commencing on June 10, 2025, the Organization will make semi-annual payments in an amount sufficient to fully amortize the remaining principal balance of the loan over thirteen years. The loan matures on the earlier of December 20, 2037 or the date on which the lender exercises its right to accelerate the debt upon occurrence of an event of default, as defined by the agreement. The loan is secured by substantially all assets acquired by the Organization from the project loan proceeds. The note payable has a put option feature that is expected to be exercised in December 2024. See Note 7. As part of the NMTC program, 99% of the interest payments will be refunded to the Organization on a monthly basis.

The real estate notes payable are secured by a letter of credit, which is secured by a deed of trust on the property.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

12. Guarantee Liability

The Organization has entered into mortgage buy-back covenant agreements with the City of Durham and NCHFA for eligible homebuyers who receive second and third mortgages issued by the City and NCHFA. In the event the homeowners become delinquent with mortgage payments, the Organization may be required to assume the outstanding balance of the loan. The Organization executed a total of \$270,000 and \$300,000 of mortgages under the agreements during the years ended June 30, 2021 and 2020, respectively. Second and third mortgages issued under the agreements totaled \$11,440,088 and \$11,170,088 as of June 30, 2021 and 2020, respectively.

Under the provisions of FASB ASC 460, *Guarantees*, the Organization is required to record a liability at the fair value the Organization expects to assume upon inception of the agreement. The liability was estimated based upon historical performance under the agreements and estimated future obligations to perform under the guarantees. Amounts accrued totaled \$249,941 as of June 30, 2021 and 2020.

13. Designated Net Assets

Designated net assets are voluntary approved designations of net assets without donor restrictions by the Organization for specific purposes and projects. Designated net assets for operating reserves were \$281,000 and \$131,000 as of June 30, 2021 and 2020, respectively.

14. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2021	2020
Subject to Expenditure for Specified Purpose:		
Construction Services	\$ 4,030	\$ 878,030
Land Purchases	25,000	4,030
Information Technology	29,030	20,000
Homeowner Services	25,000	25,000
	29,030	927,060
Subject to Passage of Time:		
Promises to Give that May be Restricted by Donors, Which are Unavailable for Expenditure Until Due	579,354	636,889
	\$ 608,384	\$ 1,563,949

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

14. Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restriction by incurring expenses to satisfy the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30:

	2021	2020
Satisfaction of Purpose Restrictions:		
Construction Services	\$ 1,100,680	\$ 1,381,482
Repairs	356,208	129,363
Gift-in-Kind	8,834	178,151
Homeowner Services	100,000	75,000
Other	20,000	41,200
	1,585,722	1,805,196
Satisfaction of Time Restrictions:		
Promises to Give	407,535	79,082
	\$ 1,993,257	\$ 1,884,278

15. Habitat ReStore

The Organization entered into a memorandum of understanding (“MOU”) agreement with Habitat for Humanity, Orange County, N.C., Inc. (“HHOC”) on July 2, 2009, regarding the acquisition and operation of real estate and Habitat Restore (the “Store”) serving Durham and Orange Counties. The MOU acknowledged that the Organization had been involved in the successful operation of the Store, which is a resale store benefiting Habitat for Humanity in Orange and Durham Counties.

Under the terms of the MOU all of the assets, including the real estate upon which the Store exists, were owned by the Organization. The debt instrument used to finance the purchase of the real estate and building for the Store was also in the Organization’s name. The Organization guaranteed the payment of debt service used to finance the Store. The agreement provided a provision for payments to be made by the Organization to the Store in the event there were shortfalls in payment of debt service or other costs as further described in the agreement. In the event of shortfalls, the Organization and HHOC were each responsible for 50% of any unpaid balance.

In September 2016, the Organization entered into a new MOU with HHOC regarding the joint ownership and operation of real estate and the store serving Durham and Orange Counties. Under the terms of the new MOU, HHOC received distributions equal to or greater than the average distribution for the proceeding three years, but not to exceed 125% of the average. Once HHOC had received its distribution, the remaining excess cash was distributed equally between the Organization and HHOC.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

15. Habitat ReStore (Continued)

In July 2019, the Organization entered into a collaboration agreement with Habitat for Humanity of Wake County, Inc. (“HHWC”) in which the Organization and HHOC appointed HHWC the managing affiliate and exclusive agent to supervise, direct and control the Store, and any future stores in Durham or Orange County. An annual management fee equal to \$36,000 is paid to HHWC out of ReStore operations in Durham and Wake counties. Quarterly distributions are made by HHWC to the Organization and HHOC based on percentages of donations by each county based on the last 12 months of donations. This agreement amended and replaced the HHOC memorandum of understanding and the HHWC 2018 management agreement.

In November 2019, the Organization and HHOC entered into an agreement with HHWC to sell the Store and the real estate upon which the Store exists for \$2,800,000. Under the terms of the agreement, the proceeds from the sale of the Store were used to repay the outstanding long-term debt and the remaining net proceeds were split evenly between the Organization and HHOC. The Organization recognized a gain of \$395,487 on the sale of the Store during the year ended June 30, 2020. The terms of the July 2019 MOU were not impacted by the sale of the Store to HHWC.

16. Retirement Plan

The Organization provides a 401(k) retirement plan covering all eligible employees meeting age and service requirements. The interest in any participant's account is at all times 100% vested and non-forfeitable. The Organization may make an annual contribution up to 5% of employee annual salaries plus a matching contribution equal to the amount of the employee annual contribution up to a maximum of 2%. The Organization contributed a total of \$91,437 and \$66,668 to the 401(k) plan for the years ended June 30, 2021 and 2020, respectively.

17. Related Party Transactions

Each year the Organization makes a contribution to Habitat for Humanity International, Inc. which uses these funds to construct homes in economically depressed areas around the world. Program service expense includes \$94,501 and \$42,000 contributed to Habitat for Humanity International, Inc. for the years ended June 30, 2021 and 2020, respectively.

18. Operating Leases

The Organization leases office equipment under operating lease agreements that provide for monthly payments totaling \$409 through September 2021. Future minimum lease payments are as follows for the years ending June 30:

2022	\$ <u>820</u>
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HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

18. Operating Leases (Continued)

The Organization also leases warehouse space and other equipment on a month-to-month basis. Equipment and warehouse space rental expense totaled \$37,500 and \$28,320 for the years ended June 30, 2021 and 2020, respectively.

The Organization also occupies donated office space. Donated office space and utilities valued at \$20,000 is recorded as an in-kind contribution and offsetting rent expense for the years ended June 30, 2021 and 2020.

Rent expense totaled \$59,529 and \$65,259 for the years ended June 30, 2021 and 2020, respectively.

19. Contingencies

As a result of the COVID-19 outbreak in the United States, economic uncertainties have arisen which may have a negative impact of the Organization's financial results in the future. The extent of the impact of COVID-19 on the operational and financial performance will depend on certain developments, including duration and spread of the outbreak, impact on customers, employees and vendors, all of which are uncertain at this time. The extent to which COVID-19 may impact the Organization's financial condition or results in the future is uncertain.

20. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 12, 2021, which is the date the financial statements were available to be issued.